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सचिव

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जीवन दीप भवन, तीसरी मंजिल
१०, पार्लियामेन्ट स्ट्रीट,
नई दिल्ली-११०००१
GOVERNMENT OF INDIA
DEPARTMENT OF FINANCIAL SERVICES
MINISTRY OF FINANCE
3rd FLOOR, JEEVAN DEEP BUILDING
SANSAD MARG, NEW DELHI-110 001
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DO No. 13/32/2019-BOA-II/

12th August 2022

Dear Sir,

Please refer guidelines issued by the Department of Revenue (DoR) *vide* circular no. 12 of 2022, dated 16.6.2022, on the above subject, stating *inter alia*, that the amount representing principal loan waived by bank under one-time settlement (OTS) scheme, would constitute income falling under section 28(iv) relating to value of any benefit or perquisite, arising from business or exercise of profession.

2. In this regard, Indian Bank Association (IBA) *vide* letter dated 15.7.2022, has represented that the principal loan waived by banks under the OTS is actually a loss borne by the banks and is not in the nature of any compensation provided by the bank to the borrower, and therefore should not be treated as a benefit or perquisite. IBA has further stated that TDS thus deducted would further reduce recoverable loan amount of the bank adding to its burden; on the other hand, delinquent borrower may get benefit of the tax credit.

3. Further, Finance Industry Development Council (FIDC) *vide* letter dated 19.7.2022, has also requested to exclude settlement/waiver of loans from the scope of the Section 194R of the Income-tax Act, 1961.

4. It may also be mentioned that in case of OTS, banks agree to forego a portion of their outstanding loan only when there is remote possibility of recovery of the full loan amount from the distressed borrower. Additional burden of TDS would not only erode banks' capital which may have to be replenished by the Government in case of public sector banks, there may not be any benefit to the revenue of the Government as the borrower may claim the tax refund.

5. In view of the above, DoR is requested to consider exclusion of settlement/waiver of loans from the scope of the Section 194R of the Income-tax Act, 1961. In the meantime, till the final decision is taken on the request, the applicability of Section 194 R for above mentioned cases may be deferred by at least six months.

With regards,

Yours sincerely,


(Sanjay Malhotra)

Shri Tarun Bajaj
Secretary
Department of Revenue
North Block
New Delhi



Copy to:

1. **Shri Sunil Mehta**
Chief Executive
Indian Banks Association
Mumbai

2. **Shri Mahesh Thakkar**
Director General
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101/103, Sunflower, 1st Floor
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